

## Reliance Capital Limited (Revised)

July 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term instrument non-convertible debentures	4,300.00	Provisional CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

<b>Rating in absence of pending steps/ documents</b>	No rating can be assigned
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### Rationale and key rating drivers

Reliance Capital Limited (RCL) is currently undergoing Corporate Insolvency and Resolution Process and RBI has appointed Nageswara Rao Y as Administrator in accordance with provisions of the Insolvency and Bankruptcy Code, 2016 read with the Insolvency and Bankruptcy Rules, 2019 per the order of the Hon'ble National Company Law Tribunal bench at Mumbai dated December 06, 2021. On April 26, 2022, the administrator issued Request for Resolution Plan (RFRP). Under the bidding process, the Resolution Plan submitted by IndusInd International Holdings Limited (IIHL - a Mauritius based entity), for acquisition of RCL on a going concern basis was approved by the Hon'ble NCLT by its order dated February 27, 2024.

The Approved Resolution Plan envisages that the Upfront Cash Amount is proposed to be first utilized for payment of the stakeholders (as referred in the Plan Approval Order). Post the settlement of the Upfront Cash Amount, the remaining admitted claims of Financial Creditors (post the settlement through the Upfront Cash Amount, the CoC Entitlement Amount (as defined in the Approved Resolution Plan) and Carved out Assets as per Clause 5.3.2 of the Approved Resolution Plan) shall be converted to equity shares of the Corporate Debtor at par. Pursuant to this, the entire existing share capital of RCL is proposed to be cancelled and extinguished for NIL consideration by virtue of the Plan Approval Order such that IndusInd International Holdings Ltd. (IIHL) and/or the Implementing Entity, and its nominees, are the only shareholders of RCL.

Proceeds of the proposed issue of RCL shall be utilised towards the repayment of the existing creditors at RCL level. There will be additional proceeds received by the stake sale of the underlying insurance companies, namely Reliance General Insurance Company Limited (RGIC), Reliance Nippon Life Insurance Company Limited (RNLIC) and Reliance Health Insurance Company Limited (RHIC) to Aasia Enterprise LLP (India Entity LLP held by Ashok Hinduja & Family). RGIC, RNLIC and RHIC are group insurance companies of RCL, which is in the process of being acquired by IIHL. These proceeds, in addition to equity infusion to be done by IIHL, shall be used to repay existing creditors of RCL in entirety.

The rating assigned to proposed non-convertible debenture issue of RCL hinges on structure, where debentures are secured by first ranking security charge on all assets including future cashflows of RCL arising from distributions in the form of dividend, repayment of shareholder loans or sale proceeds from assets / businesses held. Proceeds received by RCL from sale of shares held in Underlying Insurance Companies will form part of security offered to debenture holders.

The rating is based on estimation of cashflows arising from monetisation in the underlying insurance companies, which in turn, is supported by the escrow payment mechanism, and legal structure of the transaction. Estimated cashflows from monetisation in the underlying insurance companies provide sufficient asset cover for rated instruments in CARE Ratings Limited's (CARE Ratings) opinion.

Final rating will be assigned after copies of following documents, duly executed in accordance with the structure and to the satisfaction of CARE Ratings, are furnished by the originator:

- Duly signed and executed term sheets.
- Debenture Trustee appointment agreement.
- Debenture Trustee deed.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

- Receipt of all regulatory approvals for creating security under the term sheet.
- Approval from Department of Industrial Policy and Promotion (DIPP).
- Put option and indemnity agreement per the term sheet.
- Underlying documents for shareholding covenants.
- All necessary approvals and agreements for offshore acquirer under the term sheet.
- Execution of escrow agreements.

### **Rating sensitivities: Factors likely to lead to rating actions**

#### **Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade**

- Additional cashflows supporting the structure.

#### **Negative factors: Factors that could, individually or collectively, lead to negative rating action/ downgrade**

- Non receipt/delay in regulatory approvals and licenses for execution of structure of transaction per term sheet
- Non-adherence to pre-defined covenants- financial, shareholding, and other customary covenants as defined under executed term sheet.

### **Analytical approach:**

The rating is based on, inter alia, estimation of cashflows arising from the monetisation in the underlying insurance companies, which in turn, is supported by the escrow payment mechanism, and legal structure of the transaction.

### **Outlook: Stable**

The outlook is 'Stable' considering that estimated cashflows from monetisation in the underlying insurance companies provide sufficient asset cover for rated instruments in CARE Ratings' opinion.

### **Detailed description of key rating drivers:**

#### **Key strengths**

##### **Robustness of transaction structure and escrow mechanism**

The rating of proposed non-convertible debenture issue of RCL hinges on structure, where debentures are secured by first ranking security charge on all assets, including future cashflows of RCL arising from distributions in the form of dividend, repayment of shareholder loans or sale proceeds from assets / businesses held. Proceeds received by RCL from monetisation in underlying insurance companies will form part of security offered to debenture holders. Cashflows shall flow into an escrow account, which shall be utilised for repayment of debenture holders.

Some of key covenants include:

- IIHL to indirectly retain at least 51% of shareholding and voting rights/ control over IIHL BFSI (India) Limited, an indirect SPV of IIHL (held 100% by IIFL BFSI Holdings)
- IIHL BFSI Holdings Limited to enter put option agreement, on exercise of which, IIHL BFSI Holdings shall be obligated to purchase all the NCDs issued by RCL.
- IIHL to retain indirectly at least 51% of shareholding and voting rights of RCL; and control over RCL.

#### **Comfortable cover for debenture holders**

The security cover for debenture holders includes RCL's stake in underlying insurance companies namely RGIC and RNLIC having book value at ₹6,399 crore (fair valuation of combined stake stood at ₹14,090 crore). CARE Ratings drives comfort from key

covenants mandate IIHL BFSI Holdings to maintain minimum 51% stake in RCL in the future and the promoter's demonstration of support to their group companies in the past. This is additionally supported by put option on IIHL BFSI Holdings in favour of debenture holders, effective only after secured non-convertible debentures issued by Cyqure India Private Limited (CIPL) amounting to ₹3000 crore have been redeemed.

The rating is based on estimation of cashflows arising from monetisation in underlying insurance companies namely RGIC and RNLIC, which in turn, is supported by the escrow payment mechanism, and legal structure of the transaction. Estimated cashflows from monetisation in underlying insurance companies provide sufficient asset cover for rated instruments in CARE Ratings' opinion. *CARE Ratings derives comfort from the promoters' demonstration of support to its group companies in the past. IIHL, the acquirer of RCL is the promoter of IndusInd Bank Limited. IIHL has been involved in promoting/investing several other companies with a track record of timely repayment of debt taken.*

## Key weaknesses

### Susceptibility to delay in envisaged cash flow generation

Cash flows required for repayment of rated debentures are primarily expected to be generated by monetisation in the insurance companies, namely RGIC and RNLIC, held by RCL. Additionally, proceeds stake sale/ divestment at either of holding companies or refinancing rated debt shall be utilised to repay rated debentures of RCL. Since RCL does not have operating cashflows, delay in cash flow generation from monetisation might impact timely debt repayment since monetisation of assets depends on the market forces.

**Liquidity:** Not applicable, since there are no cashflows in the company and the rated debt is zero-coupon bond.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

## Applicable criteria

[Definition of Default](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Rating Watch](#)

[Investment Holding Companies](#)

[Assignment of Provisional Rating](#)

[Non-Banking Financial Companies](#)

### Validity of Provisional Rating:

Provisional rating shall be converted into a final rating after receipt of transaction documents duly executed/ completion of the above-mentioned steps within 90 days from date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

### Risks associated with provisional nature of credit rating:

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of critical documents to the satisfaction of CARE Ratings, a final rating is assigned. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

## About the company and industry

### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company core investment company non-deposit taking systemically important (NBFC-CIC-ND-SI)

RCL is registered as Non-Banking Financial Company Core Investment Company ('CIC') –Non-Deposit Taking Systemically Important (NBFC-CIC-ND-SI) under Section 45-IA of Reserve Bank of India Act, 1934. As a CIC, the company is primarily a holding company for investments in its subsidiaries, associates and other group companies. The company's subsidiaries and associates are engaged in a wide array of businesses in the financial and insurance service sector.

The company is undergoing Corporate Insolvency and Resolution Process and RBI has appointed Nageswara Rao Y as Administrator in accordance with the provisions of the Insolvency and Bankruptcy Code, 2016 read with the Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudication Authority) Rules, 2019 per the order of the Hon'ble National Company Law Tribunal bench at Mumbai dated December 06, 2021.

The Approved Resolution Plan envisages that the Upfront Cash Amount is proposed to be first utilized for payment of the stakeholders (as referred in the Plan Approval Order). Post the settlement of the Upfront Cash Amount, the remaining admitted claims of Financial Creditors (post the settlement through the Upfront Cash Amount, the CoC Entitlement Amount (as defined in the Approved Resolution Plan) and Carved out Assets as per Clause 5.3.2 of the Approved Resolution Plan) shall be converted to equity shares of the Corporate Debtor at par. Pursuant to this, the entire existing share capital of RCL is proposed to be cancelled and extinguished for NIL consideration by virtue of the Plan Approval Order such that IndusInd International Holdings Ltd. (IIHL) and/or the Implementing Entity, and its nominees, are the only shareholders of RCL.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	15.93	20.98	52.72
PAT	-1,105.80	-1,707.70	-232.73
Interest coverage (times)	0.00	NA	NA
Total Assets	13,661.38	12,142.14	11,866.78
Net NPA (%)	97	NA	NA
ROTA (%)	-8	NA	NA

A: Audited

#### Status of non-cooperation with previous CRA:

Per the PR dated October 27, 2023, Brickwork Ratings placed RCL in the 'Issuer Not Cooperating' category, as the company did not provide relevant information for carrying out review.

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN*	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	NA	NA	NA	NA	4300.00	Provisional CARE BBB-; Stable

\*Not yet placed

**Annexure-2: Rating history for last three years:**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Market Linked Debentures	LT	500.00	CARE PP-MLD D	1)CARE PP-MLD D (02-Jul-24)	1)CARE PP-MLD D; ISSUER NOT COOPERATING* (21-Feb-24)	1)CARE PP-MLD D; ISSUER NOT COOPERATING* (02-Mar-23)	1)CARE PP-MLD D; ISSUER NOT COOPERATING* (07-Mar-22)
2	Debt	LT	15000.00	CARE D	1)CARE D (02-Jul-24)	1)CARE D; ISSUER NOT COOPERATING* (21-Feb-24)	1)CARE D; ISSUER NOT COOPERATING* (02-Mar-23)	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-22)
3	Debt-Subordinate Debt	LT	1500.00	CARE D	1)CARE D (02-Jul-24)	1)CARE D; ISSUER NOT COOPERATING* (21-Feb-24)	1)CARE D; ISSUER NOT COOPERATING* (02-Mar-23)	1)CARE D; ISSUER NOT COOPERATING* (07-Mar-22)
4	Bonds-Non-Convertible Bonds	LT	4300.00	Provisional CARE BBB-; Stable				

\*Issuer did not cooperate; based on best available information.

LT: Long Term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

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### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

### Disclaimer:

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